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Small Business Share of Private, Nonfarm Gross Domestic Product

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Introduction

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property located in the United States. When GDP is allocated, according to the contribution each private industry sector and the government makes to its production, it is called gross product originating or GPO. This project takes each component of total private, nonfarm GPO for the period 1982-1992 and estimates what proportion of it was produced by small business and what proportion of it was produced by large business. This extends work previously done by Joel Popkin and Company for the SBA that calculated the small and large business shares of private, nonfarm GPO for the period 1958-1982.

Methodology

The estimates of GPO by business size were derived by dividing each of the five major value-added components of BEA's gross product originating by industry into a small business portion and a large business portion. Once that was done the estimates for each business size were summed to produce separate estimates of GPO from small and large businesses in the private, nonfarm economy. The five major value-added components of GPO for which business size estimates were derived are (1) compensation, (2) net interest, (3) indirect business taxes, (4) capital consumption, and (5) profit-type

income.

Several sources of data were used to make the small and large business share estimates that were applied to each of the GPO components. The major sources of data used for the 1982-1992 share estimates were *Enterprise Statistics* (ES) for 1982 and 1987, *Statistics of Income* (SOI) for 1982 through 1992 and the quinquennial economic censuses for 1982, 1987 and 1992. Other data sources needed for the calculations were the BEA's National Income and Products Accounts, *Employee Benefits* from the Chamber of Commerce of the U.S., and the Input-Output (I-O) tables of the U.S.

The procedures for calculating the estimates by business size required numerous steps. The 1982-1987 estimates were calculated using the methodology that JPC developed for calculating the 1958-1982 estimates of GPO by business size. Unfortunately, the previously-used methodology could not be followed for the 1988-1992 estimates because of a delay in the publication of one of the more important data sources, the 1992 *Enterprise Statistics*. Additionally, two of the major industry sectors were covered by the quinquennial economic censuses for the first time in 1992. Those sectors were FIRE and TCPU. Consequently, some of the methodology had to be revised and other data sources consulted to produce the

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1988-1992 numbers.

The business size estimates were first developed for the benchmark years. The benchmark years correspond to the years for which quinquennial economic censuses are conducted. Two censuses have been completed since the last set of GPO estimates by business size were released, 1987 and 1992. Once business size shares for those benchmark years were calculated, the remaining years were interpolated.

Highlights

The share of private, nonfarm, gross domestic product that originated in small business was stable at 51 percent in both 1982 and in 1992, although it reached a level of 52 percent during the 1985 to 1987 period. However, there was more movement in the small business shares for individual industries than is indicated by the stability of the overall share.

Estimates of GPO by firm size were also produced for six major industrial sectors. They are: (1) mining and manufacturing; (2) construction; (3) transportation, communications and public utilities (TCPU); (4) trade (wholesale and retail); (5) finance, insurance and real estate (FIRE); and (6) services. (See Table 1) Construction is the only industry in which the small business share rose significantly during this ten-year period. The small business share in trade, FIRE, and services fell and small gains were made by small businesses in TCPU and manufacturing and mining.

That the small business share of the private, nonfarm economy remained stable during a period when the small business share fell in several industries stems from a shift in the overall economy away from the large-business dominated mining and manufacturing sector and toward the small-business dominated services sector during this decade. Between 1982 and 1992 the share of private, nonfarm GPO accounted for by mining and manufacturing fell from 31.7 percent to 24.4 percent. At the same time the services share rose from 18.5 percent in 1982 to 25.0 percent in 1992. Consequently, even though the share of services being produced by small businesses in 1992 was smaller than in 1982, the fact that the services sector of the economy grew significantly helped maintain the share of small business output overall.

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Table 1: Small Business Share of Private Nonfarm Gross Product, 1982-1992

	<u>Total Private Nonfarm Business</u>	<u>Mining and Manufacturin g</u>	<u>Construction</u>	<u>TCPU</u>	<u>Trade</u>	<u>FIRE</u>	<u>Services</u>
1982	51	23	78	22	70	62	81
1983	51	23	81	21	69	60	81
1984	51	24	83	22	68	60	80
1985	52	25	84	23	67	58	79
1986	52	25	86	23	66	56	78
1987	52	25	87	23	65	55	77
1988	51	24	88	23	64	54	76
1989	51	24	88	23	64	52	76
1990	51	24	88	24	63	51	75
1991	51	25	88	24	61	50	74
1992	51	25	88	24	62	51	74